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UNCLAS SECTION 01 OF 05 SANAA 002460

SIPDIS

STATE - PASS TO USDA FAS. USDA - PASS TO USDA/FAS/EXPORT CREDITS FOR MARY CHAMBLISS, DEPUTY ADMINISTRATOR AND USDA/FAS/EXPORT CREDITS FOR RON CROUSHORN, DIRECTOR, PROGRAMMING DIVISION. CAIRO - PASS TO AGRICULTURAL COUNSELOR ASIF CHAUDHRY AND AGRICULTURAL ATTACHE FREDERICK GILES.

E.O. 12958: N/A

TAGS: EAGR FAID YM

SUBJECT: UNABATED POVERTY AND MALNUTRITION: YEMEN REQUESTS FY06 USDA FOOD AID THROUGH PL 480, TITLE I AND FOOD FOR PROGRESS

REF: STATE 00139203

**¶11. (U)** Summary: Embassy Sanaa seeks FY-2006 PL-480 Food for Progress commodities for rural agricultural development program assistance in counterterrorism, poverty alleviation, and critical water needs. Post requests assistance in the form of \$4.4 million in concessional loans and \$15.5 million in donations.

Section 1: Yemen Situation Report  
Section 2: USG Coordination with Yemen Stakeholders  
Section 3: Projects and Commodities Requested  
Appendix: Tables on Market Size and Displacement

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**SECTION 1: YEMEN SITUATION REPORT: RURAL FARMERS IN NEED, WIDESPREAD POVERTY AND MALNUTRITION**  
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**¶12. (SBU)** Yemen is among the least developed countries in the world. Crushing poverty, an explosive population growth rate, and pervasive malnutrition combine to form an extraordinary challenge for poor, rural, subsistence-farming families. Yemen's population growth rate is the highest in the Middle East, at an estimated 6.8 children per woman. The median age is less than 15 (Yemen Census 2004), and the life expectancy of an infant born in 2004 is only 59 years (World Bank 2004). Malnutrition levels closely rival some sub-Saharan African countries. According to a 2003 UNICEF survey, almost 50 percent of the children under age 5 are moderately to severely malnourished. For the children, who now comprise more than fifty percent of the population, there is little hope for economic advancement. Official unemployment stands at 35 percent, but according to international observers the true figure hovers closer to 50 percent. Out of desperation, many young people seek employment across the border, sometimes when they are younger than ten years old. According to UNICEF Director Ramesh Shretha, reports indicate nearly every single household in the border governorates of Mahweit, Hajja and Saada have at least one or two children working in Saudi Arabia.

**¶13. (U)** Despite these obstacles, the Yemeni government has demonstrated an eagerness to address economic issues through its efforts to initiate development programs targeting the country's agricultural economy. They are doing so in partnership with donors such as Holland, the UN, UN Food and Agricultural Organization, the World Bank, as well as the US through the USDA food aid programs.

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**SECTION 2: USG COORDINATION WITH YEMEN STAKEHOLDERS**  
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**¶14. (U)** Since the beginning of the USDA food aid program in Yemen in 1999, the Embassy has been working closely with USDA officials and Yemeni government officials at the Social Fund for Development (SFD), the Public Works Project (PWP), Ministry of Agriculture and Irrigation (MAI), and the Ministry of Planning and International Cooperation (MOPIC) to program the USDA food aid funds. Yemen has received on \$10 to \$22 million annually to focus on rural agricultural development in Yemen.

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**SECTION 3: PROJECTS AND COMMODITIES REQUESTED**  
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**¶15. (U)** Despite the many challenges facing Yemen, it has established itself in the region as one of the few countries to establish democratic institutions. Since 1995, the Yemeni Government has pursued an economic reform strategy, based on free-market principles, guided by the IMF/World Bank. Yemen

continues its commitment to introduce or expand free enterprise elements into their agricultural economy, and as such is a prime candidate for the PL 480 program. To support the Government in developing the agricultural sector, Post intends to utilize donated commodities toward free enterprise initiatives in rural agricultural communities. Such project will include rural financial credit access, women in agriculture, livestock improvement, plant and animal productivity improvements, and marketing of agricultural products. These programs fit well with the objectives of the Food for Progress program in that they support agricultural development and address critical humanitarian needs in Yemen.

**16. (U) The Embassy proposes use of the monetized commodities for the following programs:**

**PROJECT 1: Rural Financial Credit System**

- a) Value and Type of Commodity requested: \$4.0 million in long grain, parboiled rice and \$340,000 in vegetable oil
- b) Possible NGO/government implementers: CARE International; Taiz Women's Union; the quasi-governmental microfinance institution, SCDF; the Commercial and Agricultural Credit Bank
- c) Use of Commodities or Revenues: The government will sell the commodities and use the proceeds to develop a rural financial credit or village banking system for poor subsistence farmers. Funds will be used to train local outreach workers, formulate education campaigns, create a monitoring and accounting system, hire accountants and consultants, and then use \$2 million as capital.
- d) Justification for Request: Opportunities in Yemen for small borrowers in rural areas are almost non-existent due to structural flaws in the financial and legal sectors. Despite the aversion of commercial banks to offer individual lending, especially to agriculture, some microfinance and small and medium enterprise initiatives have shown surprising results in rural areas. Several of these organizations have the capacity to absorb increased capital, and to offer agricultural and small business loans to women and rural Yemenis.
- e) Market Displacement Analysis: Post recommends long grain, parboiled rice because its donation will not affect local production or commercial sales. Yemen does not produce rice and the donation will account for just 8 percent of the total market in Yemen.

**PROJECT 2: Women in Agriculture**

- a) Value and Type of Commodity Requested: \$4.0 million of soft white wheat
- b) Possible NGO/Government Implementers: ADRA International; local UN-certified NGO, the Charitable Society for Social Welfare; Social Fund for Development.
- c) Expected Use of Commodities or Revenues: This program will focus on facilitating the education of women in new methods of water-efficient irrigation and crop production. In addition to teaching women about water-conservation, irrigation methods, modern and safe pesticides, and soil replenishment, the program will also integrate maternal and child health and nutrition training.
- d) Justification for Request: In Yemeni society, rural women perform the majority of agricultural work. As such, effective and efficient methods for crop management are best taught to women. In addition, the maternal death rate from childbirth is an astronomical 350 deaths per 100,000 live births in Yemen according to UNICEF. The program will teach health, prenatal, and child care skills that will help address this dire issue along with basic nutrition.
- e) Market Displacement Analysis: Post recommends soft white wheat because its donation will not affect local production or commercial sales. Soft white wheat is a key staple in the Yemeni diet and highly preferred over other forms of wheat. In addition, domestic production accounts for only 5 percent of the market and the total donation for all programs in soft white wheat will amount to a mere 2 percent of the market.

**PROJECT 3: Livestock Sector Improvements**

- a) Value and Type of Commodity Requested: \$2.5 million in corn and \$920,000 in soybean meal

b) Possible NGO/Government Implementers: Red Sea Livestock Trade Commission; Livestock Division of the Ministry of Agriculture and Irrigation; Social Development Fund, Public Works Project; CARE International

c) Expected Use of Commodities or Revenues: The Government will sell the commodities and use the proceeds to develop a quarantine station in the port of Mokha. The facilities will include containment pens, a laboratory, quarantine facility for sick animals and a processing center to accept healthy incoming livestock to enter Yemen certified. This project is part of a network of independently developing quarantine stations in Djibouti, Kenya, and other countries on both sides of the Red Sea livestock trade. The Djibouti program is funded by USAID and this program will connect to the work already in progress there. Training in Mokha and coordination with the entire network will provide a more seamless tracking system for individual livestock as they move across both land and sea borders on both sides of the Red Sea for disease control throughout the region.

d) Justification for Request: In the fall of 2000 to the winter of 2001, the Yemeni cattle market collapsed as a result of the outbreak of Rift Valley Fever. Rift Valley Fever entered Yemen via cattle shipped from Somalia on a variety of vessels which were unlicensed and without proper import permits to Yemen, said David Ward, Senior Livestock Advisor, FAO Rome. Yemeni Ministry of Agriculture Livestock Director Dr. Ghaleb Al-Iryani states that there were more than 1500 Yemenis who died from the epidemic. This information was confirmed by USAID Yemen Senior Economic and Agricultural Advisor Dorvin Stockdale. The same factors that allowed the epidemic to begin and spread remain unchanged. Yemen is ripe for another outbreak of a variety of diseases according to a 2005 US Department of Defense review of the livestock situation in Yemen.

f) Market Displacement Analysis: Post recommends this commodity because its donation will not affect local production or commercial sales. There is no domestic corn or soybean meal production, and PL-480 donation will each account for only four percent of the market.

**PROJECT 4: College Scholarships for Study of Agricultural Sciences by Rural Disadvantaged Students**

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a) Value and Type of Commodity Requested: \$2.0 million of soft white wheat and \$1.75 million in wheat flour

b) Possible NGO/Government Implementers: local NGO, Dar Al-Rahma; Social Fund for Development

c) Expected Use of Commodities or Revenues: The proceeds will develop a university scholarship program both at undergraduate and graduate levels for disadvantaged students from rural areas of Yemen for overseas study. A joint US and Yemeni committee will select the participants from rural areas through interviews and academic achievement. The committee will consist of representatives from AMIDEAST, local universities representatives, USAID, US Embassy, and local organizations such as Dar Al-Rahma. In order to participate in the program, the candidates must demonstrate strong academic potential and maintain an acceptable GPA while in either high school or university. Candidates will be required to study within a field of agriculture such as agronomy, animal science, soil science, water and irrigation management, agricultural economics, agri-business management and other fields of agriculture which would have benefit for Yemen. Funds for per diems and stipends would be provided to participants through any NGO or government agency administering the program and would also provide for initial employment opportunities within rural areas upon completion of studies.

d) Justification for Request: Seventy percent of the population is employed in the agricultural sector within Yemen. However much of this sector is at subsistence level with job opportunities limited. Agricultural education is limited as are opportunities for new technologies to be introduced or the agricultural sector to be transformed. With improved agricultural education and the introduction of ideas from Yemeni's trained outside of Yemen, which is traditionally a closed society, this will allow for improved agricultural techniques and marketing methods to be introduced by Yemeni's themselves.

e) Market Displacement Analysis: Ninety percent of the wheat and wheat flour market in Yemen consists of unprocessed wheat. Most wheat is milled in one of five large capacity flour mills or in thousands of small capacity neighborhood mills throughout the country. As such, the total program requests a ratio of approximately 80 percent wheat to 20 percent wheat flour. The total request for soft white wheat

and wheat flour comprises a 2 and 4 percent displacement respectively.

17. (U) The Embassy would like to propose the following program using the commodities offered in the concessional loans:

PROJECT 5: Plant Productivity Improvements

a) Value and Type of Commodity Requested: \$4.4 million of long grain, parboiled rice

b) Possible NGO/Government Implementers: Mercy Corps; CARE International; ICARDA

c) Expected Use of Commodities or Revenues: The program will facilitate the training and introduction of genetically improved crops. These crops must be selected on the basis of their water-conservancy, high nutritional value, and health and safety benefits to the soil. The proceeds of the commodity sales will fund ongoing agricultural technology and biotech education programs throughout the country to augment this initiative.

d) Justification for Request: Only three percent of Yemen is considered arable land with much of the country being arid or semi-arid. Water is considered to be one of the most valuable commodities in Yemen both for agriculture and human consumption. Land and water are both a natural resource in scarce supply. This in combination with the malnutrition cited earlier, improvements in nutrition availability and productivity provided by genetically improved crops would lift the tide of poverty, water scarcity, and malnutrition in Yemen.

e) Market Displacement Analysis: Post recommends long grain, parboiled rice because its donation will not affect local production or commercial sales. Yemen does not produce rice and import account for just 8 percent of the total market in Yemen.

APPENDIX

TABLE A: Yemen Bulk Commodities Market, 2006 Estimate

Commodity	(I) Import Productn (MT)	(P) Domestic Productn (MT)	(C) Total Consumptn (MT)	%(P) of (C)	%(I) of (C)
Soft White Wheat	1,600,000	103,800	1,703,800	6%	94%
Wheat Flour	160,000	0	n/a	0%	0%
Corn	292,000	32,800	324,800	10%	90%
Soybean Meal	90,000	0	90,000	0%	100%
Rice	295,000	0	295,000	0%	100%
Vegetable Oil	170,000	59,000	229,000	26%	74%

(Source: Ministry of Industry and Trade 2003, distributor interviews 2005)

TABLE B: Yemen Bulk Commodities Market Displacement, 2006 Estimates for PL-480 Commodity Request

Commodity	(I) Import PL-480 (MT)	(D) Domestic Productn (MT)	(P) Total (MT)	(C) of (C)	%(D) of (C)
Soft White Wheat	1,600,000	30,000	103,800	1,710,800	2%
Wheat Flour	160,000	7,000	0	165,000	4%
Corn	292,000	14,000	32,800	338,000	4%
Soybean Meal	90,000	4,000	0	97,000	4%
Rice	295,000	24,000	0	299,000	8%
Vegetable Oil	170,000	1,000	59,000	232,000	.4%

(Source: Ministry of Industry and Trade 2003, distributor interviews 2005)

TABLE C: Commodity Breakdown by Project

Project 1: Rural Financial Credit System  
\$4.0 million 11,428 MT long grain, parboiled rice  
\$340,000 1,000 MT vegetable oil

Project 2: Women in Agriculture  
\$4.0 million 20,000 MT soft white wheat

Project 3: Livestock Sector Improvements  
\$2.52 million 14,000 MT corn  
\$920,000 4,000 MT soybean meal

Project 4: Scholarships for the Rural Disadvantaged  
\$2.0 million 10,000 MT soft white wheat  
\$1.75 million 7,000 MT wheat flour

Project 5: Plant Productivity Improvements  
\$4.4 million 12,571 MT long grain, parboiled rice

Total:  
\$19,930,000 80,000 MT

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Krajeski